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VARNADO WATERWORKS DISTRICT
WASHINGTON PARISH COUNCIL
VARNADO, LOUISIANA

ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2001

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 6/5/02

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**General Purpose Financial Statements
Year Ended December 31, 2001
With Supplemental Schedules**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

We have audited the accompanying general purpose financial statements of the Varnado Water Works District, Louisiana, a component unit of the Washington Parish Council, as of and for the year ended December 31, 2001, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Varnado Water Works District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Varnado Water Works District's general purpose financial statements present fairly, in all material respects, the financial position of the Varnado Water Works District, as of December 31, 2001, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2002, on our consideration of the Varnado Water Works District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Varnado Waterworks District, Louisiana, taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Varnado Water Works District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.



Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

Kentwood, Louisiana
February 22, 2002

Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

Statement A

Balance Sheet - Proprietary Fund Type
December 31, 2001

Assets

Current Assets:

Cash	\$ 616,041
Investments	454,467
Accounts Receivable (Net)	36,283
Accrued Billings	15,680
Accrued Interest	-
Due From Other Governments	3,180
Total Current Assets	<u>1,125,651</u>

Restricted Assets:

Customer Deposits - Cash	-
Bond Reserve Account -	
Cash	54,511
Investments	64,601
Depreciation and Contingency Account -	
Cash	56,537
Investments	79,532
Total Restricted Assets	<u>255,181</u>

Property, Plant and Equipment:

Land	35,512
Utility Plant, in Service	3,367,280
Total Property, Plant and Equipment	<u>3,402,792</u>
Less: Accumulated Depreciation	<u>(1,772,504)</u>
Net Property, Plant and Equipment	<u>1,630,288</u>

Total Assets \$ 3,011,120

(Continued)

The accompanying notes are an integral part of these statements.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Statement A

**Balance Sheet - Proprietary Fund Type
December 31, 2001**

Liabilities and Fund Equity

Liabilities:

Current Liabilities (Payable From Current Assets):

Accounts Payable	\$ 36,463
Sales Tax Payable	922
Payroll Taxes Payable	1,972
Retainage Payable	-
Due to Other Governments	1,633
Accrued Interest Payable	1,708
Revenue Bonds Payable - Current	36,500
Total Current Liabilities (Payable From Current Assets)	<u>79,198</u>

Current Liabilities (Payable From Restricted Assets)

Customer Deposits	18,041
Total Current Liabilities (Payable From Restricted Assets)	<u>18,041</u>

Long-Term Liabilities:

Revenue Bonds Payable Long-Term	854,346
Total Long-Term Liabilities	<u>854,346</u>

Total Liabilities	<u>951,585</u>
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Fund Equity:

Memberships	50,310
Contributed Capital	1,428,178
Less Accumulated Amortization	(929,833)
Net Contributed Capital	<u>548,655</u>

Retained Earnings:

Reserved for RUS Bond Interest and Redemption	119,112
Reserved for RUS Bond Depreciation and Contingency	136,069
Unreserved	1,255,699
Total Retained Earnings	<u>1,510,880</u>

Total Fund Equity	<u>2,059,535</u>
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Total Liabilities and Fund Equity	<u><u>\$ 3,011,120</u></u>
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(Concluded)

The accompanying notes are an integral part of these statements.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Statement B

**Statement of Revenues, Expenses, and Changes in Unreserved
Retained Earnings - Proprietary Fund Type
For the Year Ended December 31, 2001**

Operating Revenues

Water Sales	\$ 364,385
Installations	6,750
Penalties	8,890
Billing Fees	81,552
Reconnect Fees	2,720
Net (Decrease) in Fair Market of Investments	(2,906)
Other Revenues	1,334
Total Operating Revenues	<u>462,725</u>

Operating Expenses

Accounting Fees	6,805
Advertising	241
Bank Charges	6
Billing Fees	7,142
Conventions	576
Depreciation Expense	119,449
Director Fees	6,240
Insurance	23,452
Maintenance Supplies	20,780
Membership Dues	167
Mowing	1,485
NSF Checks	349
Office Expense	9,894
Payroll Taxes	7,198
Permits	20
Plant Maintenance	2,177
Rentals	-
Repairs and Installations	11,552
Salaries	97,518
Telephone	4,014
Travel	4,031
Truck Expense	-
Utilities	44,610
Total Operating Expenses	<u>367,706</u>

Net Operating Income

95,019

(Continued)

The accompanying notes are an integral part of these statements.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Statement B

**Statement of Revenues, Expenses, and Changes in Unreserved
Retained Earnings - Proprietary Fund Type
For the Year Ended December 31, 2001**

Non-Operating Revenue (Expenses):

Interest Income	\$ 63,010
Other Revenue	477
Bond Interest Expense	(54,828)
Total Non-Operating Revenue (Expenses)	<u>8,659</u>

Net Income (Loss)	103,678
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Unreserved Retained Earnings, Beginning of Year	1,129,649
Amortization of Contributed Capital	47,606
Increase in Reserve for Revenue Bond Retirement	(11,998)
Increase in Reserve for Revenue Bond Contingency	(13,236)
Unreserved Retained Earnings, End of Year	<u>\$ 1,255,699</u>

(Concluded)

The accompanying notes are an integral part of these statements.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Statement C

**Statement of Cash Flows-Proprietary Fund Type
For the Year Ended December 31, 2001**

Cash Flows From Operating Activities:

Net Operating Income	\$ 95,019
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	119,449
Changes in Accounts Receivable	(4,010)
Changes in Accrued Billings	(1,098)
Changes in Accrued Interest Receivable	649
Changes in Due From Other Governments	(786)
Changes in Accounts Payable and Accrued Expenses	(5,694)
Changes in Retainage Payable	(5,923)
Changes in Due to Other Governments	1,633
Changes in Accrued Interest Payable	1,708
Changes in Current Liabilities Payable from Restricted Assets	1,666
Net Cash Provided by Operating Activities	<u>202,613</u>

Cash Flows From Capital and Related Financing Activities:

Acquisition of Property and Equipment	(93,126)
Retirement of Revenue Bonds	(46,934)
Interest Expense	(54,828)
Membership Additions	-
Other Revenues	477
Net Cash Used by Capital and Related Financing Activities	<u>(194,411)</u>

Cash Flows From Investing Activities:

Interest Income	63,010
Investment Purchases	(31,194)
Net Cash Provided by Investing Activities	<u>31,816</u>

Net Cash Increase (Decrease) for Year	40,018
Cash at Beginning of Year	687,071
Cash at End of Year	<u>\$ 727,089</u>

The accompanying notes are an integral part of these statements.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2001**

INTRODUCTION

Varnado Waterworks District was established in 1975, by an ordinance of the Washington Parish Council. The ordinance, enacted pursuant to Louisiana Revised Statutes 33:3813, describes and defines the boundaries of the water district, and provides for a 8-member governing board of commissioners appointed by the Washington Parish Council.

Varnado Waterworks District was thus created and constitutes a public corporation and political subdivision of the State of Louisiana, and has all the power and privileges granted by the constitution and statutes of this state to such subdivision, including the authority to incur debt, to issue bonds, and to levy taxes and assessments. Varnado Waterworks District serves 1,343 water customers.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The District's financial statements are prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principle Board (APB) of the Committee On Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict or contradict with GASB pronouncements.

B. REPORTING ENTITY

The District is a component unit of the Washington Parish Council, the financial reporting entity. The Council is financially accountable for the District because it appoints a voting majority of the board and has the ability to impose its will on them.

The accompanying financial statements present information only on the fund maintained by the District and does not present information on the Council, the general governmental services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

C. FUND ACCOUNTING

The Varnado Waterworks District is organized and operated on a fund basis whereby a self-balancing set of accounts (Enterprise Fund) is maintained that comprises its assets, liabilities, fund equity, revenues, and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2001**

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The Enterprise Fund uses the following practices in recording certain revenues and expenses:

Revenues

The water district's revenue is derived primarily from water sales. The revenue is recognized when earned.

Expenditures

The water district recognizes all expenses at the time liabilities are incurred.

E. CASH AND CASH EQUIVALENTS

Cash includes amounts in demand deposits, interest-bearing demand deposits, and time deposits. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and any other state of the United States, or under the laws of the United States.

F. INVESTMENTS

Investments are limited by Louisiana Revised Statute (R.S.) 33:2955 and the District's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

The following disclosures are required by GASB Statement No. 31:

1. The District uses the quoted market prices to estimate the fair value of the investments.
2. None of the investments are reported at amortized cost.
3. The District has investments in one investment pool. The investment pool is LAMP, and the fair value of the position in the pool is the same as the value of the pool shares.
4. There is no involuntary participation in an external investment pool.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Notes to the Financial Statements
As of and for the Year Ended December 31, 2001

G. INVENTORIES

Purchase of various operating supplies are regarded as expenditures at the time purchased, and inventories of such supplies (if any) are not recorded as assets at the close of the fiscal year.

H. PREPAID ITEMS

Purchase of items regarded as having a future economical use are an expense when purchased, and prepaid amounts for such items are not recorded as assets at the close of the fiscal year.

I. RESTRICTED ASSETS

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

J. FIXED ASSETS

Fixed assets of the District are included on the balance sheet of the fund. Interest costs incurred during construction are capitalized. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of 25 to 30 years for water wells and lines and 10 to 15 years for equipment.

K. COMPENSATED ABSENCES

The District has the following policy relating to vacation and sick leave:

Employees receive 2 weeks of paid vacation after being employed for 1 to 5 years, and 3 weeks of paid vacation for 6 years and over. Employees are not allowed to carry over vacation from one year to the next.

Employees accrue ½ day per month of employment for sick leave up to a maximum of 45 days.

L. LONG-TERM LIABILITIES

Long-term liabilities are recognized within the Enterprise Fund.

M. FUND EQUITY

Contributed Capital

Grants, entitlements, or shared revenues received that are restricted for the acquisition or construction of capital assets are recorded as contributed capital. Contributed capital is amortized based on the depreciation recognized on that portion of the assets acquired from such contributions. This amortization is closed to the contributed capital account and is reflected as an adjustment to net income.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2001**

Reserves

Reserves represent those portions of fund equity legally segregated for a specific future use.

N. USE OF ESTIMATES

The preparation of financial statements in conformance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

At December 31, 2001, the District has cash and cash equivalents (book balances) totaling \$727,088, as follows:

Demand Deposits	\$ 139,749
Time Deposits	163,226
LAMP	424,113
	\$ <u>727,088</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At December 31, 2001, the District has \$406,416 in deposits (collected bank balances). These deposits are secured from risk by \$355,369 federal deposit insurance. The remaining balances of \$51,047 are secured by the pledge of securities.

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the District that the fiscal agent has failed to pay deposited funds upon demand.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2001**

3. INVESTMENTS

Investments are categorized into these three categories of credit risk:

- A. Insured or registered, or securities held by the District or its agent in the District's name
- B. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name
- C. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the District's name

All investments held by the District fall into category I credit risk, defined as "insured or registered, or securities held by the District or its agent in the District's name." In accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investments are carried at fair market value, with the estimated fair market value based on quoted market prices.

At December 31, 2001, the District's investment balances were as follows:

<u>Type of Investment</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Government Money Market	\$ 161,994	\$ 161,994
Federal Home Loan Mortgage	436,606	436,606
	<u>\$ 598,600</u>	<u>\$ 598,600</u>

In accordance with GASB Codification Section I50.165, the investment in LAMP at December 31, 2001, is not categorized in the three risk categories provided by GASB Codification Section I50.164 because the investment is in the pool of funds and therefore not evidenced by securities that exist in physical or book entry form. LAMP is administered by LAMP, Inc., a nonprofit corporation organized under the laws of the State of Louisiana, which was formed by an initiative of the State Treasurer in 1993. The corporation is governed by a board of directors comprising the State Treasurer, representatives from various organizations of local government, the Government Finance Office Association of Louisiana, and the Society of Louisiana CPAs. Only local governments having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high-quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U. S. Treasury, the U. S. Government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities. The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances. Therefore LAMP is considered a cash equivalent.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Notes to the Financial Statements
As of and for the Year Ended December 31, 2001

4. RECEIVABLES

The following is a summary of accounts receivables at December 31, 2001:

Current	\$ 30,889
31-60 Days	5,917
61-90 Days	1,332
Over 90 Days	113
Total	<u>38,251</u>
Less: Allowance for Bad Debts	1,968
Accounts Receivable, Net	\$ <u><u>36,283</u></u>

All customer receivables are reported at gross value and reduced by the portion that is expected to be uncollectible. Periodically, the board reviews the aging of receivables and determines the actual amount uncollectible. Per board approval, uncollectible amounts are written off against accounts receivable, and the allowance for doubtful accounts is adjusted to a reasonable estimate of uncollectibility.

5. CONSTRUCTION IN PROGRESS

As of December 31, 2001, the District has \$30,854 in construction on improvements. The cost of \$30,854 represents the initial engineering costs for a proposed Louisiana Community Development Block Grant for well number 4.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Notes to the Financial Statements
As of and for the Year Ended December 31, 2001

6. FIXED ASSETS

A summary of fixed assets at December 31, 2001, follows:

Description	Life Yrs	Cost	Accumulated Depreciation	Net	Depreciation Current
Phase I (1979)					
Old Water System	25	\$ 53,497	\$ 48,149	\$ 5,348	\$ 2,140
Land & Right of Way		5,597	-	5,597	-
Water Distribution System	30	569,585	427,186	142,399	18,986
Water Well	30	65,467	49,096	16,371	2,182
Phase II (1980)					
Water Distribution System	30	212,668	152,413	60,255	7,089
Water Well	30	87,721	62,866	24,855	2,924
Well Site & Pump Station	30	21,885	15,692	6,193	730
Improvements	30	12,433	3,510	8,923	414
Phase III (1984)					
Water Distribution System	30	294,633	176,229	118,404	9,821
Water Well	30	107,154	64,296	42,858	3,572
Pump Station Controls	30	248,997	149,400	99,597	8,300
Elevated Storage Tank	30	238,169	142,902	95,267	7,939
Land & Right of Way		13,225	-	13,225	-
Phase IV (1989)					
Land		2,000	-	2,000	-
Water Distribution System	30	897,130	373,809	523,321	29,904
Improvements	30	336,287	30,747	305,540	11,210
Chlorinator	5	9,080	7,468	1,612	1,816
Fence	7	5,873	2,178	3,695	839
Land		14,690	-	14,690	-
Buildings	30	123,178	29,098	94,080	4,637
Shed	20	6,250	313	5,937	313
Office Equipment	5	8,743	7,808	935	375
Equipment	7	16,056	7,724	8,332	2,294
Vehicle	5	21,620	21,620	-	3,964
Construction in Progress	N/A	30,854	-	30,854	-
Totals		<u>\$ 3,402,792</u>	<u>\$ 1,772,504</u>	<u>\$ 1,630,288</u>	<u>\$ 119,449</u>

All assets are depreciated by the straight-line method.

The utility plant and equipment in service records were reconstructed from the original construction files of the U.S. Department of Agriculture, Rural Utility Service.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Notes to the Financial Statements
As of and for the Year Ended December 31, 2001

7. LONG-TERM DEBT

The following is a summary of bond transactions of the Varnado Waterworks District for the year ended December 31, 2001:

	1977 RUS Utility Revenue	1988 RUS Utility Revenue	Total
Bonds Payable, January 1, 2001	\$ 152,193	\$ 785,587	\$ 937,780
Bonds Retired	(19,376)	(27,558)	(46,934)
Bonds Payable, December 31, 2001	<u>\$ 132,817</u>	<u>\$ 758,029</u>	<u>\$ 890,846</u>

Bonds Payable at December 31, 2001, are comprised of the following individual Issues:

	Current Amount 12/31/01	Long-Term Amount 12/31/01	Total Principal Balance 12/31/01
1977 Revenue Bonds:			
\$395,000 utility bonds sold to RUS, dated 11/19/76; due in annual installments of \$5,000 - \$20,000 through November 16, 2017; interest at 5%	\$ 19,500	\$ 113,317	\$ 132,817
1988 Revenue Bonds:			
\$925,000 utility bonds sold to RUS, dated 3/29/88; due in annual installments of \$6,000 - \$55,000 through March 29, 2028; interest at 5.875%	17,000	741,029	758,029
	<u>\$ 36,500</u>	<u>\$ 854,346</u>	<u>\$ 890,846</u>

The annual requirements to amortize all debt outstanding as of December 31, 2001, including interest payments of \$1,186,256 are as follows:

Year Ending December 31,	1977 RUS Revenue	1988 RUS Revenue	Total
2002	\$ 26,986	\$ 62,765	\$ 89,751
2003	26,986	62,765	89,751
2004	26,986	62,765	89,751
2005	26,986	62,765	89,751
2006	26,986	62,765	89,751
2007-2011	134,929	313,824	448,753
2012-2016	134,929	313,824	448,753
2017-2021	24,737	313,824	338,561
2022-2026	-	313,824	313,824
2027-2028	-	78,456	78,456
	<u>\$ 429,525</u>	<u>\$ 1,647,577</u>	<u>\$ 2,077,102</u>

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Notes to the Financial Statements
As of and for the Year Ended December 31, 2001

8. FLOW OF FUNDS, RESTRICTIONS ON USE

The voters of the District approved the issuance of \$395,000, \$76,000, and \$925,000 of the utility revenue bonds in elections held January, 1977, November 13, 1978, and April 13, 1988. Permanent financing for the \$395,000 issue, used to finance Phase I of the District's waterworks system, was obtained on November 16, 1977 from the United States Department of Agriculture, Rural Utilities Service (RUS). The \$76,000 issue, used to construct Phase II, was also sold to RUS, but has been fully refunded. The final issue of \$925,000, used to construct Phase III of the water system, was also sold to RUS on March 29, 1988.

Under the terms of the bond issue, the bonds are payable as to principal and interest solely from the income and revenues derived from the operations of the combined water system of the District after provisions have been made for the payment of the reasonable and necessary expenses of administering, operating, and maintaining of the system.

The District is to maintain its water rates at minimum amounts and increase these rates as necessary in accordance with its loan agreements with RUS.

Each month there will be set aside into a fund called "Bond and Interest Sinking (Redemption) Fund" a sum equal to one-twelfth (1/12) of the next principal payment due, together with such proportionate sum as may be required as the same respectfully become due on such date. Money in the Sinking Fund shall be deposited as trust funds and shall be fully sufficient to assure the prompt payment of principal and interest installments as they become due, and may be used only for such payments. Alternately, RUS has set up a payment schedule whereby the District can make payments directly to its office. This eliminates the need of the "Bond and Interest Sinking Fund". In addition to the required sinking fund installments, Varnado Waterworks District also made an additional payment of \$10,303 for the fiscal year ended December 31, 2001. This payment was made from the Phase IV account, per Rural Utilities Service authorization.

There shall also be set aside into a "Utility System Revenue Bond Reserve Fund" an amount equal to 5% of the monthly debt installment, after the construction becomes revenue producing, until there is accumulated therein an amount equal to the highest annual debt service payment in any future year. The monthly reserve deposit requirement totals \$394 per month, but is no longer required since the accumulated balance of \$119,112 (Schedule 5 - Schedule of Changes in Assets Restricted for USDA Rural Utilities Service) exceeds the highest succeeding annual installment.

Such amounts may be used only for the payment of maturing bonds and interest coupons for which sufficient funds are not on deposit in the Bond and Interest Sinking Fund, as to which there would otherwise be default. The District fully funded the Reserve Fund for the year ended December 31, 2001.

Funds will also be set aside into a "Depreciation and Contingency Fund", after completion of the project, at the rate of \$398 per month for the term of the bonds. Money in this fund will be used for the making of repairs or replacements to the system, for depreciable capital items, which are necessary to keep the system in operating condition, enhance its revenue producing capacity or provide for a higher degree of service for which money is not available as a maintenance and operation expense. Money in this fund may also be used to pay principal and interest on the bonds falling due at any time there is not sufficient money for payments in other bond funds. The District fully funded the Depreciation and Contingency Fund for the year ended December 31, 2001.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2001**

All the revenues, received in any year and not required to be paid in such year into any of the noted funds, shall be regarded as surplus and may be used for any lawful corporate purpose.

9. FUND EQUITY

Reserved Retained Earnings is created in conjunction with the issuance of revenue bonds and is funded by transfers from the revenue account, based on assets held by the water district that are restricted for bond payments. The purpose of the reserved retained earnings is to service the revenue bonds.

10. INTERGOVERNMENTAL AGREEMENT

The Varnado Waterworks District entered into a service agreement with the Bogue Lusa Water Works District and the Varnado Gas District. The Varnado Waterworks District will perform all necessary functions involving billing of customers, collection of customer's accounts, keeping and furnishing necessary financial information and records on a monthly basis to Bogue Lusa Water Works District and Varnado Gas District. The Varnado Waterworks District also performs meter reading for Varnado Gas District. The fee for this service is \$1.75 per customer per month for Bogue Lusa Water Works and \$2.35 per customer per month for Varnado Gas District, payable monthly. Varnado Waterworks District will provide all system repair and maintenance customarily done by its own personnel. Accurate hourly records of personnel records involved in repairs shall be kept and Bogue Lusa Water Works District and Varnado Gas District will be billed monthly at two times the employees hourly rate. All materials, parts and supplies will be paid directly by the District which incurred the cost. Varnado Waterworks District employees will keep accurate mileage records for the service truck used for maintenance and repairs and will bill the other districts 35 cents per mile for work done on their respective systems. Periodically, an accounting will be made of the costs of the services provided under the agreement. Cash settlements will be made between the Districts, so each District pays its portion of the actual costs.

SUPPLEMENTAL INFORMATION

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Schedule 1

**Comparative Balance Sheet - Proprietary Fund Type
December 31, 2001 and 2000**

Assets	<u>2001</u>	<u>2000</u>
Current Assets:		
Cash	\$ 616,041	\$ 616,973
Investments	454,467	391,103
Accounts Receivable	36,283	32,273
Accrued Billings	15,680	14,582
Accrued Interest	-	649
Due From Other Governments	3,180	2,394
Total Current Assets	<u>1,125,651</u>	<u>1,057,974</u>
Restricted Assets:		
Customer Deposits - Cash	-	16,454
Bond Reserve Account -		
Cash	54,511	26,914
Investment	64,601	80,199
Depreciation and Contingency Account -		
Cash	56,537	26,730
Investment	79,532	96,104
Total Restricted Assets	<u>255,181</u>	<u>246,401</u>
Property, Plant and Equipment:		
Land	35,512	35,512
Utility Plant, in Service	3,367,280	3,274,154
Total Property, Plant and Equipment	<u>3,402,792</u>	<u>3,309,666</u>
Less: Accumulated Depreciation	<u>(1,772,504)</u>	<u>(1,653,055)</u>
Net Property, Plant and Equipment	<u>1,630,288</u>	<u>1,656,611</u>
Total Assets	<u>\$ 3,011,120</u>	<u>\$ 2,960,986</u>

(Continued)

The accompanying notes are an integral part of these statements.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Schedule 1

**Comparative Balance Sheet - Proprietary Fund Type
December 31, 2001**

Liabilities and Fund Equity

Liabilities:

Current Liabilities (Payable From Current Assets):

	<u>2001</u>	<u>2000</u>
Accounts Payable	\$ 36,463	\$ 42,437
Sales Tax Payable	922	858
Payroll Taxes Payable	1,972	1,756
Retainage Payable	-	5,923
Due to Other Governments	1,633	-
Accrued Interest Payable	1,708	-
Revenue Bonds Payable - Current	36,500	36,500
Total Current Liabilities (Payable From Current Assets)	<u>79,198</u>	<u>87,474</u>

Current Liabilities (Payable From Restricted Assets)

Customer Deposits	<u>18,041</u>	<u>16,375</u>
Total Current Liabilities (Payable From Restricted Assets)	<u>18,041</u>	<u>16,375</u>

Long-Term Liabilities:

Revenue Bonds Payable Long-Term	<u>854,346</u>	<u>901,280</u>
Total Long-Term Liabilities	<u>854,346</u>	<u>901,280</u>

Total Liabilities

<u>951,585</u>	<u>1,005,129</u>
----------------	------------------

Fund Equity:

Memberships	50,310	50,310
Contributed Capital	1,428,178	1,428,178
Less Accumulated Amortization	(929,833)	(882,227)
Net Contributed Capital	<u>548,655</u>	<u>596,261</u>

Retained Earnings:

Reserved for RUS Bond Interest and Redemption	119,112	107,113
Reserved for RUS Bond Depreciation and Contingency	136,069	122,834
Unreserved	1,255,699	1,129,649
Total Retained Earnings	<u>1,510,880</u>	<u>1,359,596</u>

Total Fund Equity

<u>2,059,535</u>	<u>1,955,857</u>
------------------	------------------

Total Liabilities and Fund Equity

<u>\$ 3,011,120</u>	<u>\$ 2,960,986</u>
---------------------	---------------------

(Concluded)

The accompanying notes are an integral part of these statements.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Schedule 2

**Schedule of Revenues, Expenses and Changes in Unreserved
Retained Earnings (Budget and Actual) - Proprietary Fund Type
For the Year Ended December 31, 2001
And Actual For the Year Ended December 31, 2000**

	Budget	Actual	Variance- Favorable (Unfavorable)	2000 Actual
Operating Revenues				
Water Sales	\$ 366,000	\$ 364,385	\$ (1,615)	\$ 361,534
Installations	7,200	6,750	(450)	9,000
Penalties	9,000	8,890	(110)	8,678
Billing Fees	81,300	81,552	252	68,820
Reconnect Fees	2,800	2,720	(80)	2,960
Net Increase (Decrease) in Fair Market Value of Investments	(3,000)	(2,906)	94	28,250
Other Revenues	1,280	1,334	54	1,947
Total Operating Revenues	464,580	462,725	(1,855)	481,189
Operating Expenses				
Accounting Fees	7,000	6,805	195	5,955
Advertising	700	241	459	146
Bank Charges	-	6	(6)	-
Billing Fees	7,200	7,142	58	-
Conventions	500	576	(76)	605
Depreciation Expense	114,000	119,449	(5,449)	114,121
Director Fees	6,000	6,240	(240)	5,580
Insurance	20,000	23,452	(3,452)	18,360
Maintenance Supplies	20,500	20,780	(280)	15,282
Membership Dues	200	167	33	532
Mowing	2,000	1,485	515	1,530
NSF Checks	200	349	(149)	9
Office Expense	7,700	9,894	(2,194)	8,848
Payroll Taxes	6,000	7,198	(1,198)	6,340
Permits	50	20	30	50
Plant Maintenance	15,000	2,177	12,823	13,480
Rentals	200	-	200	125
Repairs and Installations	28,000	11,552	16,448	10,816
Salaries	81,000	97,518	(16,518)	80,886
Telephone	3,000	4,014	(1,014)	2,513
Travel	5,000	4,031	969	3,282
Truck Expense	1,500	-	1,500	1,220
Utilities	40,000	44,610	(4,610)	37,476
Total Operating Expenses	365,750	367,706	(1,956)	327,156
Net Operating Income	98,830	95,019	(3,811)	154,033

(Continued)

The accompanying notes are an integral part of these statements.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Schedule 2

**Schedule of Revenues, Expenses and Changes in Unreserved
Retained Earnings (Budget and Actual) - Proprietary Fund Type
For the Year Ended December 31, 2001
And Actual For the Year Ended December 31, 2000**

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>	<u>2000 Actual</u>
Non-Operating Revenue(Expenses):				
Interest Income	\$ 51,300	\$ 63,010	\$ 11,710	\$ 65,623
Other Revenues	-	477	477	481
Bond Interest Expense	(60,000)	(54,828)	5,172	(55,123)
Total Non-Operating Revenue (Expenses)	<u>(8,700)</u>	<u>8,659</u>	<u>17,359</u>	<u>10,981</u>
Net Income (Loss)	<u>\$ 90,130</u>	<u>103,678</u>	<u>\$ 13,548</u>	<u>165,014</u>
Unreserved Retained Earnings, Beginning of Year		1,129,649		950,363
Amortization of Contributed Capital		47,606		47,606
Increase in Reserve for Revenue Bond Retirement		(11,998)		(15,721)
Increase in Reserve for Revenue Bond Contingency		(13,236)		(17,613)
Unreserved Retained Earnings, End of Year		<u>\$ 1,255,699</u>		<u>\$ 1,129,649</u>

(Concluded)

The accompanying notes are an integral part of these statements.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Schedule 3

**Schedule of Board of Commissioners
For the Year Ended December 31, 2001**

<u>Board of Commissioners</u>	<u>Per Diem</u>	<u>Term of Office</u>
Homer Seal, Commissioner 62823 Main St. Angie, LA 70426	\$ 780	01/01/01 - 12/31/05
T. A. Magee, Commissioner 20551 Windy Ridge Rd. Bogalusa, LA 70427	840	1/01/97 - 12/21/01
Wayne Seal, Commissioner 61269 Dollar Road Angie, LA 70426	840	1/01/99 - 12/31/02
Freddie Jefferrson, Vice-President 31110 School Rd. Angie, LA 70426	780	1/01/97 - 12/31/01
Melodysee Peters, Commissioner 24279 Old Columbia Road Angie, LA 70426	660	1/1/99 - 12/31/02
Berkley Thomas, President 20078 Edwards Drive Bogalusa, LA 70427	720	1/1/00 - 12/31/03
Ancel Williams, Commissioner 63293 Fornea Road Angie, LA 70426	840	1/1/00 - 12/31/03
Argil Boone, Commissioner 61768 Seal Road Angie, LA 70426	780	1/1/01 - 12/31/05
Total Compensation Paid	<u>\$ 6,240</u>	

The accompanying notes are an integral part of this statement.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Schedule 4

**Schedule of Insurance
For the Year Ended December 31, 2001**

<u>Insurance Company</u>	<u>Coverage</u>	<u>Amount</u>	<u>Period</u>
CNA Surety Company Bond # 18216102	Position Fidelity Bond: President Vice-President Board Member General Manager Clerk	\$ 100,000 100,000 100,000 25,000 25,000	11/16/01 11/16/02
CNA Insurance Company Renewal of Policy BM 1068623907	Boiler & Machinery Coverage : Water Pumping Station	\$ 500,000	02/28/01 02/28/02
The Hartford Policy # 43CESQE1367	Commercial General Liability: Products Completed Operations Personal & Advertising Injury Fire, Lighting, Explosion Damage Medical Expense General Aggregate (Specified Coverages)	\$ 1,000,000 1,000,000 500,000 10,000 3000,000	02/28/01 02/28/02
Audubon Insurance Co. - Policy # CFP850371	Commercial Property: Office Building Contents Metal Building	\$ 85,000 20,000 8,000	02/28/01 02/28/02
Progressive Insurance Co. - Policy # CA 04599137-0	Business Auto: Liability Uninsured Motorist Comprehensive Collision Medical Payments	\$ 1,000,000 1,000,000 Scheduled Scheduled 5,000	02/28/01 02/28/02
CNA Insurance Company Renewal of Policy 195792086	Public Official's Liability Any One Claim Annual Aggregate	\$ 1,000,000 1,000,000 Scheduled	02/28/01 02/28/02
LA Worker's Compensation Corporation Policy 401271	Worker's Compensation	Statutory Limits	Continuing Policy

The accompanying notes are an integral part of this statement.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Schedule 5

**Schedule of Changes in Assets Restricted
For USDA Rural Utility Service
And
Schedule of Water Customers
For the Year Ended December 31, 2001**

	<u>Bond Reserve</u>	<u>Bond Depreciation and Contingency</u>	<u>Total</u>
Cash Balance, January 1, 2001	\$ 107,114	\$ 122,834	\$ 229,948
Cash Receipts:			
Transfers From Operating Account	4,800	4,776	9,576
Interest Earned	5,768	6,687	12,455
Net Increase (Decrease) in Fair Market of Investments	<u>1,430</u>	<u>1,772</u>	<u>3,202</u>
Cash Balance, December 31, 2001	\$ <u>119,112</u>	\$ <u>136,069</u>	\$ <u>255,181</u>

SCHEDULE OF WATER CUSTOMERS

As of December 31, 2001, the District had the following number of customers.

Water-Residential	1,318
Water-Commercial	19
Water-School	5
Water-Prison	<u>1</u>
Total Water Customers	<u>1,343</u>

The accompanying notes are an integral part of these statements.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Schedule 6

**Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2001**

Section I - Internal Control and Compliance Material to the Financial Statements

Reference Number: 2000-01

Description of Finding:

During the year, the District was under collateralized by \$3,981.

Recommendation:

It was recommended that the District acquire proper collateralization from the financial institution to be in compliance with state law.

Correction Action Planned:

The management of the District put the recommendation into effect immediately and obtained proper collateralization.

Corrective Action Taken: Final

Section II - Management Letter

No Section II Findings.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Schedule 7

**Corrective Action Plan for
Current Year Audit Findings
For the Year Ended December 31, 2001**

Section I - Internal Control and Compliance Material to the Financial Statements

Reference Number: 2001-01

Description of Finding:

At December 31, 2001, a balance was not maintained for cash meter deposits, although a corresponding meter deposit liability was recorded in the amount of \$18,041. We recommend that funds from the operation and maintenance account, in the amount of \$18,041, be transferred to a separate cash account for meter deposits.

Corrective Action Planned (Response by Management):

We will transfer funds from the operation and maintenance account, in the amount of \$18,041, to a separate cash account for meter deposits.

Anticipated Completion Date:

We will take the recommended action immediately.

Name of Contact Person:

Mary Thigpen, Manager
Varnado Waterworks District
(985) 735-1669

Section II - Management Letter

No Section II Findings.

BRUCE HARRELL & CO.
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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

We have audited the general purpose financial statements of the Varnado Waterworks District, as of and for the year ended December 31, 2001, and have issued our report thereon dated February 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Varnado Waterworks District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Corrective Action Plan for Current Year Audit Findings as Reference Number 2001-01.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Varnado Waterworks District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a reportable condition in which the design and operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

BRUCE HARRELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS

Board of Commissioners
Varnado Waterworks District
Page 2

This report is intended for the information of management, the Louisiana Legislative Auditor, and the USDA Rural Utility Service. However, this report is a matter of public record and its distribution is not limited.



Bruce Harrell & Company, CPAs
A Professional Accounting Corporation
Kentwood, Louisiana

February 22, 2002